

Testimony provided by the Honorable Tim Ryan (OH-17)

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House Ways and Means Committee

1100 Longworth House Office Building

Good morning Chairman Levin, Ranking Member Camp, and Members of the Committee. Thank you for the opportunity to speak before the Ways and Means committee on China's policy of manipulating its currency.

We all believe that American manufacturers can outcompete and outperform, and outproduce anyone so long as our competition plays by the rules. But for years, our employers have been forced to compete against the nonmarket-based foreign exchange policies of the People's Republic of China. U.S. manufacturing's share of employment, which was 39 percent during World War II, dipped below 10 percent in 2008. Nationwide, the number of manufacturing jobs declined roughly 20 percent between 2000 and 2007. And the decline in manufacturing has contributed to record trade deficits with countries such as China.

We will hear from some multinational companies which have taken advantage of China's protectionist currency policies and you will surely hear them complain that standing up to China will risk upsetting the Chinese, but let's be very clear: China's policy of currency manipulation violates international norms and trade laws. Article IV of the International Monetary Fund's Agreement states that member countries should "avoid manipulating exchange rates...in order...to gain an unfair competitive advantage over other members," and defines manipulation to include "protracted large-scale intervention in one direction in the exchange market." This, of course, is exactly what China has been doing for years--blatantly violating the norms and standards of international trade which govern our world economy and with which our own manufacturers are obligated to comply.

China's unfair currency manipulation has especially hurt those small manufacturers who do not have the resources to absorb the glut of artificially undervalued goods coming from China—goods that are subsidized by China's policy of undervaluing their currency against the U.S. dollar and a handful of other currencies. You can look at any number of manufacturers in my district and throughout the nation to see how Chinese currency manipulation has hurt small manufacturers. Circle Mold and Machine in Tallmadge, Ohio makes molds for the automotive industry. Backyard Buddy of Warren, Ohio makes electric-powered auto lifts. Wheatland Tube makes steel pipe. These companies and similar companies in your congressional districts are being asked to compete not just with their business competitors in China, but with the Chinese government itself.

Earlier this year, steel companies received a unanimous ruling from the International Trade Commission, which ruled that China was subsidizing pipe and tube used in oil and natural gas exploration and importing it to North America at unfair prices. The ruling affected nearly \$2.8 billion in Chinese pipe that was shipped to the United States in 2008, the largest trade case of its kind ever filed against China. But after the ITC ruled against China and imposed antidumping and countervailing duties on subsidized steel pipe, V&M Star Steel of Youngstown—which was being significantly harmed by cheap, subsidized Chinese steel—went on to invest \$650 million into an expansion of a plant in my district that will create 400 construction jobs and 350 permanent, full-time positions.

Our nation stood up, defended our laws, and helped create a fair playing field that enabled a company to create hundreds of much-needed jobs in the middle of an economic downturn.

According to the International Monetary Fund, the U.S. Treasury Department, the congressionally-chartered U.S.-China Economic and Security Review Commission, and many economists, China's currency, the Renminbi (RMB), is undervalued by as much as 40 percent. This means that Chinese goods entering the US market and competing against US goods are receiving an effective subsidy of up to 40%. It also means that US goods being shipped to China are being hit with an effective tariff of up to 40%. For those of us who believe in a free market, China's policy of deliberately keeping its currency artificially weak is anything but market-based.

Economist and Nobel Laureate Paul Krugman wrote that China maintains "the most distortionary exchange rate policy any major nation has ever followed." A report by the Economic Policy Institute concluded that between 2001 and 2008, 2.4 million jobs were lost and thousands of workers were displaced in every U.S. congressional district as a result of China's currency manipulation and unfair trade policies. The IMF, in its annual report issued in July, indicated that China's trade surplus would balloon again unless China takes more steps to support domestic consumption, including letting its currency strengthen.

The bipartisan Currency Reform for Fair Trade Act, which I introduced with my Republican colleague Tim Murphy, addresses this currency manipulation by using internationally agreed-upon WTO rules. Enacting legislation is the only viable option we have at this point to bring strong pressure on China and other countries with persistently undervalued currencies. 143 Members of Congress have already cosponsored the bill, ranging from the most liberal to the most conservative members in both parties. This legislation has been endorsed by more than 250 unions, trade associations, and other organizations.

The Currency Reform for Fair Trade Act, which does not single out any one country in particular, directs the U.S. Department of Commerce to treat currency undervaluation as a prohibited export subsidy. When any foreign government deliberately undervalues its currency, the U.S. government can respond by imposing reasonable countervailing duties or antidumping measures. Special care has been taken to make the provisions of this currency bill consistent with the World Trade Organization's relevant agreements and provisions. The bill defines the actionable offense as "fundamental and actionable misalignment." That determination relies on publicly available data on whether a currency is misaligned over an 18-month period and requires the use of IMF methodologies and guidelines for computing the magnitude of misalignment.

In sum, the Ryan-Murphy bill provides a WTO-consistent remedy that could be applied to any country that at any time engaged in the protectionism of protracted currency undervaluation.

It is time for Congress to act to ensure fair treatment for American workers and manufacturers. For seven years, the Bush and Obama administrations have tried a diplomatic approach with China on this issue, and it has failed. Only when China has been backed against the wall to make concessions has it indicated that it would allow its currency to rise, and then almost immediately it has backpedaled. Legislation would put teeth into our government's effort to compel China and all other countries to comply with their responsibilities as our international partners.

We as a nation, as a Congress, cannot continue to look the other way as China's currency policies slowly but steadily smother what remains of our American manufacturing.

It is time for us to act. I urge you to pass the Currency Reform for Fair Trade Act.